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Refer Reply To:
CC:PSI:B01
PLR-127913-12
Date:
December 20, 2012

Dear _____ :

This responds to a letter dated June 28, 2012, and subsequent correspondence, submitted on behalf of X, requesting a ruling under section 731 of the Internal Revenue Code.

Facts

According to the information submitted, X is a limited liability company formed under the laws of State that is treated as a partnership for federal tax purposes. The partners of X are Partner A and Partner B.

During the time that Partner A has been a partner of X, X made several loans of money to Partner A. The loans were evidenced by notes from Partner A. X now intends to cancel certain notes from Partner A. Concurrently with the cancellation, X will make a pro rata distribution to Partner B to prevent dilution. After the cancellations and distribution, X will continue in existence with Partner A and Partner B remaining partners.

X requests a ruling that, for purposes of determining gain under section 731, X's cancellation of the notes from Partner A will be treated as a distribution of money from X to Partner A.

Law and Analysis

Section 731(a)(1) provides that, in the case of a distribution by a partnership to a partner, gain shall not be recognized to such partner, except to the extent that any money distributed exceeds the adjusted basis of such partner's interest in the partnership immediately before the distribution.

Section 1.731-1(c)(2) of the Income Tax Regulations provides that the receipt by a partner from the partnership of money or property under an obligation to repay the amount of such money or to return such property does not constitute a distribution subject to section 731 but is a loan governed by section 707(a). To the extent that such an obligation is canceled, the obligor partner will be considered to have received a distribution of money or property at the time of cancellation.

Conclusion

Based solely on the facts submitted and the representations made, we conclude that, pursuant to Treas. Reg. § 1.731-1(c)(2), X's cancellation of the notes from Partner A will be treated as a distribution of \$a from X to Partner A.

Except as expressly provided herein, no opinion is expressed or implied concerning the tax consequences of any aspect of any transaction or item discussed or

referenced in this letter. Specifically, no opinion is expressed concerning whether the arrangements between X and Partner A constitute bona fide loans, or whether sections 707(a)(2) or 751 apply to X's cancellation of the notes from Partner A or the distributions made by X to Partner B.

This ruling is directed only to the taxpayer requesting it. Section 6110(k)(3) provides that it may not be used or cited as precedent.

Pursuant to the power of attorney on file with this office, a copy of this letter will be sent to X's authorized representative.

Sincerely,

David R. Haglund

David R. Haglund

Chief, Branch 1

Office of the Associate Chief Counsel
(Passthroughs & Special Industries)

Enclosures (2)

Copy of this letter

Copy of this letter for § 6110 purposes

cc: